

**COMMENTS OF DAVID D. HILLER  
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POSTAL REGULATORY COMMISSION  
LOS ANGELES, CALIFORNIA  
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Good morning. I appreciate the opportunity to appear before you today to present our views regarding your implementation of the new postal reform law.

**I. INTRODUCTION**

The *Los Angeles Times* is the nation's largest daily metropolitan newspaper, measured by circulation. The *Times* traces its origins to 1881, and serves a vital role in Los Angeles and southern California.

All newspapers, large or small, daily or weekly, serve as vehicles for both news and advertising. We depend on the revenue from advertising to support the operations of the newspaper, and in particular our editorial function. Advertising revenue – not circulation revenue– is the lifeblood of a newspaper. These are the revenues that make it possible for a newspaper to serve its local community by reporting and publishing news on important issues of the day.

As well documented, newspapers these days face intense competition on many fronts. *The Los Angeles Times* faces heavy competition from other newspapers, television and radio, magazines, advertising mailers, and

increasingly growing internet competitors such as Google. None of these media have the same public service commitment (and cost structure) as newspapers.

The *Los Angeles Times* depends heavily on the U.S. Postal Service for the delivery of our products. We are part of Tribune Company, a large mailer, spending almost \$150 annually with the Postal Service, with more than \$40 million here in Los Angeles. Obviously, we have a keen interest in how postal rates are set and in how they are reviewed by this Commission.

Our largest use of the mail is for the delivery of our Total Market Coverage or TMC products. Through our TMC products we are able to provide our advertising customers with a complete market area by delivering advertising inserts in the newspaper and mailing the same inserts to non-subscribers. In addition to our shared mail products, the Los Angeles Times has a growing solo mail operation. We work closely with our local postmasters to schedule entry times and make the greatest effort possible on our end to assure that our advertising mail packages are delivered within the window desired by our customers.

As good customers of the U.S. Postal Service, we want dependable and efficient mail delivery. We want fair and predictable postal rates, while recognizing the need that rates cover costs. Finally, we want the postal rates

and services to be competitively neutral between ourselves and our advertising mail competitors.

As this Commission carries forward the important task of developing a new rate regime for our nation's postal system, I would like to comment on three areas before you: prior review of negotiated service agreements, the setting of costing methodologies by the time a new system is in place, and potential problems on the horizon that could impact service after service standards are established.

## **II. PRIOR REVIEW OF NEGOTIATED SERVICES AGREEMENTS**

Newspapers expect to be treated by the Postal Service on an equal basis with other mailers. So, we are greatly concerned about suggestions that negotiated service agreements between selected mailers and the Postal Service should take effect even before being reviewed by this Commission.

Congress, in the new postal law, essentially codified your existing rules regarding NSAs – effectively acknowledging that this Commission got it right. In particular, Congress enacted a requirement that NSAs “do not cause unreasonable harm to the marketplace.”

To take an example of particular concern to us, special treatment for our saturation direct mail competitors could cause unreasonable harm to the marketplace. It is easy to imagine a special deal that could simply shift

advertising inserts between two competing mailers – thus affecting their relative competitive position – but with no net benefit to the Postal Service, as the gains from the NSA mailer would be offset by losses from the other.

In the case of general postal rate changes, the Postal Service has to take into account the likely effects on all mailers of all of its rate changes. In the case of a single mailer NSA, the Postal Service does not have the same incentive and may not have access to the type of information required to assess the effects of changes in particular discrete marketplaces.

I urge the Commission to continue to review NSAs before they are allowed to take effect, not afterwards. Only in this way can unreasonable harm to competition be prevented. We believe the Commission is fully capable of coming up with a reasonable timeframe for prior review of baseline NSAs given the consequences of a mistake.

### **III. COSTING METHODOLOGIES**

As CEO of a large business, it is critical that I understand my company's cost structure. I was surprised to learn the Postal Service cannot attribute nearly half its costs to its products. An operation the size of the USPS ought to have a better handle on its costs.

The postal reform law gives you the authority to prescribe the costing methodologies to assess whether postal rates cover their costs. I urge the

Commission, as a matter of promoting sound business practice, to use this authority. It will help the Postal Service better understand the reasons for its costs and make sure that each type of mail pays its way. This would also have the additional beneficial result of improving the transparency of postage rates – especially important as the Commission has only a limited time to review proposed general rate changes.

#### **IV. IMPACT OF FLATS SEQUENCING SYSTEM ON SERVICE**

The Postal Service is to consult with this Commission as it works to establish service standards for market-dominant products by the end of this year. I would like to comment on the Postal Service's proposed Flats Sequencing System (or "FSS"), which could pose serious service and cost problems for newspapers. This FSS system will not be implemented until 2008, which is after service standards are established. We think that FSS should be taken into account when those standards are developed.

Currently, *The Los Angeles Times* – like most daily newspapers – prepares our high-density and saturation TMC mailings together and delivers them to the same destination entry units at the same time. Unfortunately, as we understand the Postal Service's current thinking about FSS, we may have to separate our high-density mailings for entry at upstream Sectional Center Facilities (SCF) for sorting on FSS equipment. Our saturation rate mailings could still enter at local delivery units. This means we will be sending the same product

– our advertising inserts – through two separate mail streams. Not only would this bifurcated system raise our costs significantly and jeopardize our ability to meet the delivery time demands of our advertisers, it will give our competitors a service and price advantage, as saturation advertising mailers will continue to be able to enter the mail at the delivery office at the lowest rates.

Today, newspapers lower Postal Service costs by entering walk-sequenced flats at the local post office on days when they can be carried as third-bundles. If the FSS process results in higher costs or poor service in meeting home delivery times required by our advertisers, newspapers will have no choice– in this competitive media environment– but to explore alternative means for delivery of our Standard Mail products. As a long valued customer – which has made a long-term bet on delivering our products through the mail – we certainly hope that the Postal Service does not throw the baby out with the bathwater.

Thank you for your time and consideration. I would be happy to answer any questions that you may have.